

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 SP-02 ICA-11 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00 FRB-03
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FM AMEMBASSY MANAGUA

TO SECSTATE WASHDC 7479

INFO USDOC WASHDC

AMEMBASSY GUATEMALA

AMEMBASSY SAN JOSE

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

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E.O. 11652: NA

TAGS: EFIN, NU

SUBJECT: GON BORROWS \$41 MILLION ABROAD

REF: A) MANAGUA 3679 B) MANAGUA 3778

1. NICARAGUAN CONGRESS HAS APPROVED BORROWINGS BY GON OF \$41 MILLION DOLLARS FROM VARIOUS AMERICAN AND EUROPEAN COMMERCIAL BANKS. THE TERMS OF THESE LOANS ARE ONLY TWO YEARS AND THE INTEREST (PLUS FRONT-END COMMISSIONS) RATE AVERAGES 1.75 PERCENT OVER LIBOR (LONDON INTER-BANK OFFERING RATE). THE FOLLOWING BANKS HAVE LOANED THE AMOUNTS INDICATED (IN MILLIONS OF DOLLARS): BANK OF LONDON AND MONTREAL (BAHAMAS), \$4; MANUFACTURERS HANOVER \$4; WELLS FARGO BANK, \$4; CHEMICAL BANK, \$4; MORGAN GUARANTY INTERNATIONAL BANK OF MIAMI, \$4; BANK OF AMERICA, \$4; IRVING TRUST COMPANY, \$2; AND SWISS BANK, \$15.

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2. DUE TO THE SHORT BORROWING TERM, LOANS ARE CONSIDERED AS "BRIDGE FINANCING" AND WILL PROBABLY BE USED BY GON TO HELP FINANCE ITS SEVERE BUDGETARY DEFICIT FOR CURRENT FISCAL YEAR. GON PROBABLY NEGOTIATED LOAN IN ANTICIPATION OF INCREASED TAX REVENUES WHICH WILL BE GENERATED BY RECENTLY-PASSED TAX PACKAGE. (SEE REF B)

3. THE RATE ON THE LOANS IS NOT DISADVANTAGEOUS TO NICARAGUA, SINCE IT HAS BORROWED IN THE PAST AT 2 PERCENT "OVER". THE SHORTER PAYBACK PERIOD ON THE LOANS, WHICH NICARAGUA REPORTEDLY REQUESTED, ALSO ENCOURAGED THIS RELATIVELY FAVORABLE INTEREST RATE.

4. LOCAL BANKING SOURCES OPINED THAT DESPITE NICARAGUA'S CONTINUING FINANCIAL PROBLEMS AND SAGGING ECONOMIC/COMMERCIAL CLIMATE, BANKS ARE CONTINUING TO LEND TO NICARAGUA FOR THE FOLLOWING REASONS. A) THERE IS A GREAT DEAL OF LIQUIDITY IN THE WORLD CAPITAL MARKETS. BANKS ARE, THEREFORE, MORE ABLE AND WILLING TO LEND TO NICARAGUA. HOWEVER, SHOULD THIS LIQUIDITY DECREASE OVER THE NEXT YEAR, NICARAGUA WILL ENCOUNTER DIFFICULTY IN OBTAINING FUTURE LOANS. B) THE BANKS FEEL THAT THE GON AND THE INTERNATIONAL MONETARY FUND (IMF) ARE ABOUT TO REACH AN AGREEMENT ON NICARAGUA'S REQUEST FOR STAND-BY STATUS. THERE WAS RECENTLY AN IMF NEGOTIATION TEAM IN MANAGUA AND LOCAL SOURCES FEEL THAT THIS IMPLIES A 90 PERCENT ASSURANCE OF AN AGREEMENT. (NOTE: THE ACTUAL DRAWDOWN OF AT LEAST TWO OF THE LOANS IS CONTINGENT UPON SUCH AN AGREEMENT.) C) THE BANKS FEEL THAT SOMOZA IS GOING TO RIDE OUT THE CURRENT POLITICAL PROBLEMS HIS REGIME IS FACING AND THAT THE BANKS ARE, THEREFORE, LENDING TO A VIABLE LIMITED OFFICIAL USE

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GOVERNMENT. "HE HAS THE MEANS OF REPRESSION IN THE GUARDIA NACIONAL AND HE IS GOING TO LAST," A SOURCE AT ONE OF THE LENDING INSTITUTIONS STATED.

5. THE AMCIT MANAGER OF LOCAL BRANCH OF A MAJOR U.S. BANK SAID THAT THE LOANS WERE NOT GRANTED ENTHUSIASTICALLY, AND THAT IF THE SITUATION IN THE COUNTRY DOES NOT IMPROVE BY NEXT YEAR AND THE GON DOES NOT BEGIN TO SOLVE ITS FINANCIAL PROBLEMS, THE SOURCES OF EXTERNAL FINANCING AVAILABLE TO NICARAGUA WILL BECOME LESS AND LESS AVAILABLE.

6. LOANS HAVE RECEIVED PRESS ATTENTION FROM BOTH PRO-GON AND OPPOSITION PAPERS. LA PRENSA, (OPPOSITION DAILY) HAS STATED THAT LOANS ARE "FRIGHTENING" AND ARE BEING UNDERTAKEN BY A GOVERNMENT WHICH IS FACING A DESPERATE ECONOMIC SITUATION AND A SEVERE LACK OF LIQUIDITY. NOVEDADES, THE GON DAILY, STATED THAT THE GRANTING OF THE LOANS INDICATES THAT NICARAGUA ENJOYS A HIGH CREDIT RATING AMONG THE MAJOR BANKS OF THE WORLD. SOLAUN

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